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C O N F I D E N T I A L SECTION 01 OF 03 ASHGABAT 001619

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SUBJECT: TURKMENISTAN: HUNGARIAN ENVOY VISITS TO PROMOTE
NABUCCO SUMMIT

REF: BUDAPEST 1188

Classified By: Charge d'Affaires a.i. Richard Miles. Reasons 1.4 (B) and (D).

11. (C) SUMMARY: Hungary's special envoy for Nabucco was in Turkmenistan December 16-17 to promote Turkmen participation at the January Nabucco summit in Budapest. Hungary's proactiveness on Nabucco results from its desire to reduce its energy dependence on Russia. He highlighted the summit's planned "closed door" session as value-added to the event vis-a-vis other Nabucco gatherings. The Hungarians invited the Turkmen President to conduct a bilateral visit adjacent to the summit, but no response from the Turkmen side was given. The envoy expressed "alarm" at possible low-level German participation at the summit. Discussions with Turkmen officials touched on possible gas production levels in the Caspian, but no promise was made about its ultimate destination. The envoy valued U.S. political messages supporting energy diversification and Nabucco and hoped they would continue. END SUMMARY.

HUNGARY COMMITTED TO NABUCCO

12. (C) On December 17, Hungary's Nabucco Ambassador-at-Large, Mihaly Bayer, met with the Charge to discuss the Hungarian government's efforts to support the proposed Nabucco pipeline, especially the planned January 26-27 Nabucco summit in Budapest. His current trip to Ashgabat was mainly to talk about the summit, which he described as having arisen from Prime Minister Ferenc Gyurcsany's personal interest in getting the Nabucco project on track. Bayer said energy diversification is "a must" for Hungary in order for the country not to depend entirely on Russia as its energy supplier. Even eventual Nabucco deliveries would only stop a further increase in Hungary's dependence, not eliminate it. PM Gyurcsany had not been satisfied with the lack of progress on Nabucco. However, by organizing the summit, the Hungarians had succeeded in "throwing a stone in the still water" to stir up some activity, as well as showing that if a small state player can be active, then so can others.

RECENT MOMENTUM ON NABUCCO NOTED

13. (C) In Bayer's view, there has been some new momentum in support of Nabucco. The events in Georgia without doubt spurred progress on Nabucco, creating a window of opportunity. EU CG-TREN officials and commissioner Andris Piebalgs seem more inclined to support Nabucco. The Italians have shifted their position and may use Nabucco for deliveries. Bayer mentioned a meeting last week with Nabucco partners at which it was agreed that an intergovernmental conference should start a few days before the summit. Such a meeting at an expert level, if Turkey accepts, would be a positive development leading into the summit.

SUMMIT AGENDA

14. (C) Meanwhile, Bayer thought the summit itself could resolve some open questions and add impetus to the Nabucco process. Hungary has three goals for the summit: to reconfirm political support behind Nabucco; to strengthen partners' commitment; and to create an opportunity for a "behind closed door dialogue" about what is still needed and the partners' abilities to contribute. Bayer suggested the closed door session would be the summit's real "value-added" to the Nabucco process. It would be kicked off with a statement by the CEO of the Nabucco pipeline corporation about the current state of play, followed by EBRD remarks about financing and then an open floor for attendees to engage in a "genuine dialogue." Bayer hoped the summit would send a message to upstream countries that the project was supported and moving ahead.

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HUNGARIANS INVITE TURKMEN PRESIDENT FOR BILATERAL VISIT

15. (C) He continued by running through the current list of expected summit attendees, similar to the list reported in reftel. Concerning Turkmen attendance, Bayer was told in his meetings with GOTX officials that the level of participation was still being determined. On behalf of Hungarian President Solyom, Bayer had extended an invitation for President Berdimuhamedov to conduct a bilateral visit to Hungary in January and to attend the summit on the side. Turkmen officials had no immediate response. Bayer also mentioned that proposed German participation at the level of "only" a State Secretary was "alarming." He said Nord Stream was the Germans' priority, but added that he understood it would be difficult for the German President or Prime Minister to attend because there were so many conferences in Europe, plus the prime minister would visit Hungary next summer to celebrate the anniversary of the opening of the border. Bayer mentioned that he expected a strong U.S. message of support. He also made a plug for high-level U.S. representation to serve as an indicator of such support.

TURKMEN WANT TO DELIVER GAS TO EUROPE, IF POSSIBLE

16. (C) In meetings with Oil and Gas Deputy Chairman, Tachberdi Tagiyev, and Minister of Oil and Gas, Annaguly Deryaev, Bayer said he felt more openness about Nabucco and that the Turkmen were more optimistic about the role they could play. They told him that Turkmenistan would keep trying to diversify its export options and wanted to deliver gas to Europe, if possible. He was told that anticipated gas production from Petronas' offshore Block I would be five bcm in 2010 and ten bcm in 2012, although the officials did not promise to send this gas westward. They did give him a message to encourage European companies to come to Turkmenistan, saying that "if Turkmenistan can create a partnership with Europe, then solutions will follow." Concerning construction of a trans-Caspian pipeline, the officials noted their view that a pipeline can be built without the consent of all Caspian littoral countries.

THE ENVOY'S SCENARIO FOR TURKMEN GAS VIA NABUCCO

17. (C) Bayer commented to the Charge that, if Petronas

production is achieved, it would be possible to link its field with the existing Azeri pipeline network in order to ship the gas westward. He observed that Turkmenistan has a very centralized political system, which has as a result that officials either lack answers about GOTX policy direction or are not authorized to share such information. It was also Bayer's view that the Turkmen would have more leverage with Russia after the pipeline to China begins operation next year. In that case, the Turkmen might become more visible in their support for Nabucco once they're not relying almost exclusively on Russia for exports. In order to move ahead on Nabucco, the project needs to contract eight bcma from Azerbaijan, plus another eight bcma from Turkmenistan. He said 31 bcma would be peak throughput in 2024-2025 and would not need to be delivered immediately.

POSITIVE VIEW OF U.S. CASPIAN DIPLOMACY

¶18. (C) Bayer thought U.S. diplomacy had had a positive impact in the Caspian, especially its quiet diplomacy to sort out the Turkmenistan-Azerbaijan delimitation issue. He also suggested the importance of keeping these countries engaged as partners with the West. In his view, U.S. political messages supporting energy diversification and Nabucco have always been strong and contribute to linking the Caspian region with Europe. A relaxation of the U.S. position on Nabucco would send the wrong message to Russia and others about the seriousness of the energy diversification issue.

TURKEY'S COMMITMENT TO NABUCCO STILL IN DOUBT

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¶19. (C) Nabucco is the "trigger" to deliver gas from a Southern route into the heart of Europe, continued Bayer. Progress on Nabucco will reassure upstream producers about the seriousness and reliability of Europe as a consumer. A failure to move ahead would undermine the EU's credibility in the region, plus any plan that would bypass Turkey would be more complicated and difficult. If Nabucco fails, "there is no Plan B for the time being." Bayer suggested that Turkey's commitment is still a question, despite its approval of a draft intergovernmental agreement and apparent Turkish political support for the project. His concern is that Turkey would not sanction the intergovernmental agreement before it gained assurances about its own level of gas supplies. Also, Turkey might not have given up its notion of its "special role" related to energy supply and sales in the region.

¶10. (C) Bayer closed with a plug for the EU's Caspian Development Corporation ("CDC") proposal, saying it could become a second trigger for Nabucco and spur development in Turkmenistan. He mentioned that Deputy Chairman Tagiyev had heard of the proposal, but didn't know details, and that his contact at the Turkmen MFA knew nothing about it. Bayer hoped for at least "silent support" from the U.S. for the CDC, saying there were not many ideas about how to make the link between Turkmenistan and the Western shore of the Caspian.

¶11. (C) COMMENT: Once Turkmenistan's offshore blocks begin gas production, there will remain the challenge of resolving Turkmen-Azeri differences before Turkmen gas can flow westward, even if the proposed connection is a relatively modest linkage to existing Azeri infrastructure. The Turkmen would be unlikely to yield much ground to Azeri demands as long as they have alternative export routes for their gas. Meanwhile, expanded export capacity due to the new Chinese gas pipeline means that Turkmenistan will still be hard pressed to meet its domestic requirements and existing export commitments. With no near-term urgency to secure a Western outlet, the Turkmen will likely take a wait-and-see approach, even while they continue to encourage Western investment in offshore production. In short, a number of significant pieces will need to fall into place before Turkmen gas could

be shipped through Nabucco. END COMMENT.
MILES